

# **CAPITAL PLANNING ADVISORY BOARD**

## **Minutes of the First Meeting of the 2000 Calendar Year**

**May 25, 2000**

The first meeting of the Capital Planning Advisory Board (CPAB) of the 2000 calendar year was held on Thursday, May 25, 2000 at 1:00 PM, in Room 327 of the Capitol. Representative Perry Clark, Chairman, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Perry Clark, Chairman; Bill Hintze, Vice-Chairman; Susan Clary; Glenn Mitchell (representing James Codell); Representative Brian Crall; LaChele Taylor (representing Bonnie Howell); David Clinkenbeard (representing Lou Karibo); Cicely Jaracz Lambert; Norma Northern; Senator Albert Robinson; Laurel True; and Garlan Vanhook.

Guests Appearing before the Board: Commissioner Armond Russ and Division of Real Properties Director Jim Abbott, Department for Facilities Management; Secretary Jimmy D. Helton, Deputy Secretary Marcia Morgan, and Department for Mental Health/Mental Retardation Services Commissioner Margaret Pennington, Cabinet for Health Services; John F. Stewart, Jr., Vice President, and Jim Remmer, Senior Project Manager, Luckett and Farley; Department for Employment Services Commissioner Margaret Whittet and Office for Policy and Budget Executive Director John Friel, Workforce Development Cabinet.

LRC Staff: Pat Ingram, Mary Lynn Collins, Lola Williamson Lyle, and Phillip Smith.

Chairman Clark welcomed Mr. Garlan Vanhook, General Manager for Facilities, Administrative Office of the Courts, as the Board's newest member. He also noted that long-time member Bonnie Howell is retiring from state government and will be leaving the Board.

Representative Crall's motion to approve the minutes of the October 26 meeting was seconded by Mr. Hintze and approved.

Chairman Clark next asked Pat Ingram, CPAB Staff Administrator, to review the Information Items that were included in the members' folders. Ms. Ingram said there were

three information items addressing the actions of 2000 General Assembly: a report on the 2000-02 Executive Branch budget, a report on the 2000-02 Judicial Branch budget, and a report of other enacted legislation that related to the Board's work.

Chairman Clark said next on the agenda was an update on the Capitol restoration/renovation project and implementation of the long-range plan for housing state agencies in Frankfort. As a result of developments on both projects since the last CPAB meeting in October, Secretary McCarty had been asked to provide this update to the Board. In the absence of Secretary McCarty, Facilities Management Commissioner Armond Russ and Jim Abbott, Director, Division of Real Properties, were asked to address the Board.

Commissioner Armond Russ thanked Chairman Clark and the Board. He said it has recently been determined that the long-range plan for Franklin County developed in 1998 needed to be broader and to include some other things. He said it is a work in progress for which he could provide an update today and return in the fall or early winter with a more detailed briefing.

Commissioner Russ said the 1998 plan identified the need to reduce the amount of rental space and to start renovating state office buildings in Frankfort, most of which have not been renovated for 35 years. According to Commissioner Russ, when he accepted his current position in 1996, the plan was to renovate the buildings two or three floors at a time with the tenants remaining in them. However when this was determined to be a very expensive approach and when indoor air-quality problems were also encountered in the office buildings, it was decided to instead vacate the buildings before beginning the renovations.

The first building proposed to be renovated was the State Office Building. However, there was not adequate space in Franklin County in which to house the building's occupants. Meanwhile, the Transportation Cabinet was focusing on a need to consolidate its offices and to have additional space. As a result, a project was approved to construct 420,000 SF of office space that would accommodate the Transportation Cabinet for a minimum of 10 years and allow the subletting of space that the Cabinet is not using.

Commissioner Russ said the 300,000 SF State Office Building will undergo renovation when the Transportation Cabinet occupies its new building. This will produce a net gain of 120,000 SF at that time. Renovation of the State Office Building will be followed by renovation of the Capital Plaza Tower and the CHR Complex (one-half at a time). Under this plan, it would be approximately 2011 before the renovation cycle is completed and at that point the 300,000 SF lost when the State Office Building was taken off-line will be recovered.

Commissioner Russ said since 1996 one new office building has been built in Frankfort – the 50,000 SF Public Service Commission (PSC) Building - and design has begun on the 75,000 SF Kentucky Higher Education Assistance Authority (KHEAA) Building that is expected to be on-line in about two years. Commissioner Russ stated that based on the 1998 study, there is about 9 million SF of office space in Franklin County, of which 6.8 million SF is state owned and the remaining is leased. Statistics indicate that state government in Frankfort is growing at a rate of 1% compared to 3% for the general population. According to Commissioner Russ, a 1% growth would require 90,000 SF of new office space per year. This is why construction of up to 300,000 SF of state owned space was requested in the 2000-02 budget. Knowing that funds might be limited, a different funding approach was proposed, but the project was not authorized by the General Assembly.

Commissioner Russ said the next urgent need is renovation of the Capitol since it has been almost 50 years since it has had a significant renovation. This plan is to depopulate the building, then to restore it back to its original historic condition as much as practical. A 63,000 SF Executive Office Building will be constructed in the vicinity of the parking garage to house those displaced from the Capitol on a permanent basis.

The remainder of the building will need to be de-populated on a temporary basis during the renovation. A portion of the 300,000 SF requested, but not authorized in the 2000-02 budget was to have been used for this purpose. Commissioner Russ said construction funding for the Executive Office Building and the Capitol Restoration were not authorized in the 2000-02 budget; design funding, only, was provided. The design process will have to take into account the lack of space for temporary relocations. Commissioner Russ said by this Fall he hopes to have a better idea of how to accomplish this project in a reasonable amount of time.

In response to Mr. Vanhook's question, Commissioner Russ said 420,000 SF for the new Transportation Cabinet Office Building is intended to provide for 10 years of agency growth; that is what they would like to do for any agency for which a building is being constructed. In response to a further question, he said constraints due to the building's location in a historic area make it difficult to design for future expansion.

Mr. Hintze said that the state Budget Office expects the building to be sufficient for longer than 10 years, since 20-year bonds will be issued. The state's history of building usage is that they are long-lived facilities with major renovations being infrequent. Mr. Hintze said it will take a lot of effort, both physically and fiscally, and that the state will be lucky to adhere to the 2011 renovation schedule that has been outlined. The cost involved will require that the facilities be used for decades.

Ms. Clary asked how the \$19 million authorized in the 2000-02 budget is to be used. Commissioner Russ said the budget for design of the Capitol renovation itself is \$8 million to \$9 million with construction costs estimated from \$100 million to \$150 million. The \$19 million also includes design of the Executive Office Building and various infrastructure items. He said the Capitol restoration must maintain the historic fabric while providing state-of-the-art communications, etc. They will also need to make major air-quality changes and totally redo the boiler and chiller plants. Commissioner Russ said the restoration plan is not just a 20-year cosmetic renovation; it is intended to last 50 years. Mr. Hintze explained that the authorization granted by the General Assembly is sufficiently broad to go beyond design and to address some infrastructure items.

Mr. True cited a letter from Secretary McCarty in a recent issue of the (Frankfort) *State-Journal* in which he stated the need to develop a long-term master plan and asked whether that meant the 1998 plan, as presented to the Board, was now irrelevant. Commissioner Russ said that the 1998 plan was probably not as broad as it should have been. Secretary McCarty believes land banking may be needed to provide for a grand approach to the Capitol from the East-West Connector; the land might also be the site for a significant monument-type government building in the future. Land banking is also important to provide space for other buildings needed to accommodate the growth of state government in Frankfort. More information should be available in the Fall.

Representative Crall asked about the basis for the 1% growth projection for state government. Commissioner Russ said it was a function of funding levels and that growth of governmental services tends to parallel the general population growth.

Representative Crall asked if the increased use of technology had been taken into consideration and how much of the 1% growth would be out in the state as compared to in Franklin County. Mr. Hintze said new positions in state government are overwhelming out in the state and are associated with either new facilities, expanded facilities, or field operations. Commissioner Russ added that one area of growth is in contractors and others working on projects on a temporary basis who need to be co-located with state employees. He said the growth issue needs to be examined in greater detail.

Representative Crall said the current 3% growth rate for Kentucky may not continue since between 1980 and 1990, it was 1% and that this should be factored into future projections and discussions.

Mr. Abbott said statewide growth in space has been between 2% and 3%, while in Franklin County, leased space has grown by about 1%. Some of the Franklin County need has been addressed by the new PSC building and reconditioning of other state-owned space. He pointed out that some of the additional space needs had been dictated by issues

not related to numbers of people. Those include Americans with Disabilities Act (ADA) requirements, and smoking and environmental issues.

In response to Chairman Clark's question about the 1998 legislation that allowed new construction to be considered when obtaining leased space, Mr. Abbott said it was several months before they received the first offer to build but now 20% of the successful bidders are offering new construction and about 80% are refurbishing existing buildings.

Commissioner Russ said to achieve agency consolidations in Frankfort the buildings would need to be from 50,000 SF to 100,000 SF. Builders are reluctant to construct such facilities when there is no market for large buildings other than state government. He said there is not a reluctance to construct smaller buildings, but agencies seldom want just 20,000 SF. Mr. Abbot said there have been a couple of new construction leases in Franklin County, but not of the size to address overall state government needs.

Mr. Hintze pointed out that the Governor's budget, as introduced in January, included authorization for up to a 300,000 SF new office building. However, the final budget changed that authorization to a feasibility study, only. He said that over the next two years, it will be important to look for options that can succeed legislatively.

Chairman Clark asked about recent news reports that the state is not going to renew the city's lease for land now being used as Capitol View Park. Commissioner Russ said about 168 acres is currently leased to the City of Frankfort, under a 20-year lease which expires in 2003; about 90 acres are used for recreational purposes. It is envisioned that the area will become the premier ingress to the Capitol Campus in the long range (20-30 year) future and may become the site of one or two monument-type buildings. Commissioner Russ stated there is no desire to build wall-to-wall, glass-style office buildings there but to maintain the green space, which is compatible with its use as a park.

Mr. Abbott said when the Commonwealth originally leased the land to the city of Frankfort there had not been a lot of studies done and there was not much discussion about land banking and state office space needs. The tract as originally purchased extended from the river to the Library and Archives Building but was severed by construction of the East-West Connector.

Mr. Abbott said development currently being done by the city will result in about two-thirds of the tract being used, and Commissioner Russ noted that the development is being done in the floodplain area which the state would not anticipate using as a construction site.

Chairman Clark thanked Commissioner Russ and Mr. Abbott, then introduced Secretary Jimmy Helton and Deputy Secretary Marcia Morgan from the Cabinet for

Health Services (CHS) for a presentation on the feasibility study concerning Central State Hospital (CSH), Eastern State Hospital (ESH), and Western State Hospital (WSH).

Secretary Helton thanked Chairman Clark and the Board for supporting the feasibility study. He said Deputy Secretary Morgan and representatives of the consulting firm of Luckett and Farley (John Stewart and Jim Remmer) would review the study.

Deputy Secretary Morgan said the feasibility study looked at not only the projects which had been identified when the CHS capital plan was submitted last summer, but also at long term infrastructure issues, the possible transfer of facilities to the Finance and Administration Cabinet for maintenance purposes, and the demolition or adaptive re-use of some of the facilities. She noted that, for the first time in 10 years, the 2000-02 budget provides a major infusion of funds for CHS facilities. She distributed a brief summary of each of the facilities and the implementation schedule for the authorized projects.

Mr. True asked who the residents of the state's mental treatment facilities in the future would be and what services would be provided in state facilities. Secretary Helton said the focus is on freedom of choice and having people live and receive services in the community, such that there are expected to be fewer patients in the state facilities. However, he said there will always be some people who need the services provided by a state hospital. He explained that because the population in the state Intermediate Care Facilities for the Mentally Retarded (ICFMR) is living longer there is also a need for nursing home facilities which can serve an aging population whose nursing needs exceed their needs for mental retardation or mental health treatment. Department for Mental Health/Mental Retardation Services Commissioner Margaret Pennington said the nursing home beds are filled by people who have come through the state system of psychiatric hospitals or ICFMRs. She said state government fills the gap that the private sector has been unable or unwilling to address. For example, in Louisville the University of Louisville Hospital has 25 acute psychiatric beds and CSH handles long term patients, while WSH and ESH serve both acute and long-term patients. Commissioner Pennington said indigent patients are usually referred to the state system rather than being served in other facilities.

Mr. Stewart and Mr. Remmer then reviewed the feasibility study. Mr. Stewart said the study team included individuals with backgrounds in architecture, engineering (structural, civil, mechanical, electrical), and plumbing. They visited all three campuses and surveyed each building as to its condition, what it was used for, and how it worked relative to the other buildings on the campus. Interviews were conducted with personnel on-site and not just in the Frankfort offices. The study evaluated four scenarios: consolidation, consolidation plus addition, demolition and replacement, and immediate needs. Costs have been estimated over an eight-year period. Mr. Stewart said, based on

his experience throughout the country, Kentucky has a lot to be proud of - generally the facilities are well maintained, with a good staff providing services to the patients.

In response to Mr. True's question, Mr. Stewart said the study did not necessarily recommend one scenario over another. However, he said replacement is probably not needed for CSH because it was constructed relatively recently and is in fairly good condition. If funds were available, a new building would probably be appropriate for WSH because land is available and the current facility is relatively old and needs repairs. At ESH, because of the limited availability of land and historic aspects of the existing facility, it might be best to construct an addition.

In response to a question from Ms. Clary, Commissioner Pennington said juveniles are no longer served on the CSH campus. The cottages that previously housed juveniles are now used for office space and are recommended for demolition in the study. In response to Ms. Clary's further question about building configurations, particularly where there are numerous, separate facilities, Commissioner Pennington noted that some of that occurred when populations were much larger and when different populations, such as juveniles, were being served by these hospitals. She added that WSH does not meet current standards for licensing and regulation.

Responding to Mr. True's questions, Mr. Stewart said the alternatives as presented address patient care needs and requirements as well as issues of functional obsolescence of building systems, etc. He added that the study assumed reducing the number of licensed beds at WSH and ESH to 200 each; this is also the current number at CSH.

Ms. Northern asked if the same quality of services would be provided even though the costs differ under the various scenarios (consolidation, consolidation and addition, or replacement). Mr. Stewart said that was correct, and the thing to look at is the long term.

Chairman Clark asked what the next step will be now that these studies have been completed. From talking to the Kentucky Department for Veterans' Affairs, Secretary Helton said he has learned there is a tremendous need to provide services to homeless veterans; this would be an ideal use for some of the buildings that can be rehabilitated.

Deputy Secretary Morgan said CHS has been working closely with the Department for Facilities Management relative to not only this study and the projects authorized in the 2000-02 budget, but also with regard to CHS's in-house planning. She said most of the facilities have small capital projects costing less than \$100,000 and they are working with the facilities' directors to consolidate all of that money to address some of the immediate needs that were not funded in the budget. When the buildings, grounds, and infrastructure are stabilized, the plan is for Facilities Management to assume responsibility for the maintenance needs of these three facilities.

Commissioner Russ confirmed that Facilities Management is looking at assuming responsibility for the infrastructure and for buildings that are no longer needed for programmatic operations at the hospitals. He said all three campuses are prime properties. A decision will have to be made relative to land banking or using the property.

Commissioner Russ said Facilities Management has determined that the state should be constructing its own office facilities in Louisville, Lexington, and Northern Kentucky because of the high rental rates in those areas. He said the prime location of the ESH property in Lexington means it probably will be used for offices or another state purpose in the future. Similarly, WSH is one of the largest pieces of state-owned property in that area and could probably also be used as a land bank or as a site to relocate state agency offices from that area. Commissioner Russ said that CSH is a more complex issue; but it is located next to Tom Sawyer State Park, and they might have some use for that property.

In response to Chairman Clark's question, Deputy Secretary Morgan said CHS has every intention of undertaking similar studies relative to the ICFMR facilities (Hazelwood, Outwood, Oakwood). She said the psychiatric hospitals were addressed first because they were older. While the ICFMRs are not as large or as old, they are beginning to have some serious problems as well.

Chairman Clark thanked the CHS officials for their presentations. He said the next item on the agenda was the Department for Employment Services (DES) Facility Replacement and Renovation Program authorized in the 2000-02 budget for the Workforce Development Cabinet. He introduced DES Commissioner Margaret Whittet and John Friel, Executive Director of the Cabinet's Office for Policy and Budget.

Commissioner Whittet said the DES owns 24 facilities that were constructed using a combination of state and federal (Department of Labor) funds. She identified three factors that have caused DES to consider disposing of some of its facilities: 1) the Federal Workforce Development Act under which agencies are housed at "one-stop" service sites selected by local boards (not necessarily in state-owned buildings); 2) reductions in DES staffing over the past 10 years; and 3) the age and lack of maintenance funding for the state-owned buildings.

Commissioner Whittet said language in the 2000-02 budget will allow DES to use the state portion of proceeds from the sale of any of its buildings to either acquire (build or purchase) a building or to refurbish another building. She said in order to retain the federal equity, that portion of the sale proceeds must be used to acquire similar equity elsewhere; otherwise, those amounts must be returned to the US Department of Labor.



According to Commissioner Whittet, the plan is still being developed but at this point DES has identified five buildings to be disposed of. One is the Frankfort local office on Mero Street which has been acquired by the state for \$800,000 as part of the site for the new Transportation Cabinet Office Building. DES plans to construct a new facility in Frankfort and is looking at different scenarios. Possibilities include consolidating the DES central office (currently in the Cabinet for Human Resources Building in Frankfort) and the local office, or consolidating offices of other Workforce Development Cabinet agencies that are currently housed in leased space in Franklin County.

Commissioner Whittet said that DES will sell the Lexington facility and move that local office to the new Central Kentucky Job Center in Lexington, a one-stop site. DES will attempt to purchase equity in that facility using some of the proceeds from the sale of the existing facility.

In Elizabethtown, DES has already moved from the state-owned building to a one-stop in leased space; and in Maysville, DES will relocate to a new one-stop being constructed by the city. In both instances, the state-owned buildings to be disposed of were too small and had ADA accessibility problems. In Maysville, DES will attempt to purchase an equity interest in the new building.

DES may also sell its Winchester building and relocate to the new state office building that was funded in the 1998-2000 and 2000-02 budgets. Commissioner Whittet said DES will need to contribute \$600,000 to become a part of that project.

Commissioner Whittet said if proceeds allow, DES would like to build in Frankfort and in other high productivity areas (for example, Campbellsville and Georgetown) where they currently pay high rental rates.

Commissioner Whittet concluded by saying that DES is continuing to evaluate its needs, to obtain better estimates of the value of its property and of the cost of replacement facilities, and to develop time frames and a sequence of events.

Mr. True noted that other agencies are also housed in the state-owned DES building in Hopkinsville and asked about the use of rent proceeds from those agencies. Commissioner Whittet said DES assesses tenants a share of the utilities and maintenance of the facility, but does not charge rent. She added that development of an income stream to finance future renovations and upkeep has been discussed with the Finance and Administration Cabinet and that under the Workforce Investment Act, DES will be required to have some type of a cost allocation plan in place. Commissioner Whittet said it has only been because of reductions in staff in the last few years that DES has had space available to lease out.

Mr. True said it appeared that a mechanism to collect rent should be developed. Mr. Hintze said DES is not going to be able to build or renovate without an income stream. He said DES hopes to receive significant amounts from the sale of its Lexington building, which can be applied to other locations. Additionally, Mr. Hintze noted that DES had not been successful in getting maintenance pool funds from the state because the Department is federally funded and its buildings have received federal support.

In response to questions from Mr. True, Commissioner Whittet said DES has various contracts related to the welfare-to-work program, but the use of those funds is very specific - primarily for the salaries of staff who provide the services.

Chairman Clark asked whether the Facility Replacement and Renovation Program would address the two projects proposed in the 1998-2004 capital plan for the Louisville DES building. Commissioner Whittet said they are working with the Finance Cabinet to determine the cost of renovating that building, which would provide some space to be leased out. She estimated that at least 30,000 SF would be available to other tenants.

Chairman Clark thanked the Workforce Development Cabinet officials for their presentation.

At Chairman Clark's request, Ms. Ingram reviewed the tentative schedule for future meetings of the Board. She said the next meeting will be held at the Kentucky State Police Headquarters on Friday, July 28. She also noted that at a meeting later this year, the Board will need to take action on forms and instructions for the agencies to use in submitting their 2000-06 capital plans. Chairman Clark asked that staff review planning processes from other states and seek agency input in updating the forms and instructions.

There being no further business to come before the Board, the meeting was adjourned at 3:15 p.m.